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Overview

Introduction

The purpose of this topic is to provide guidance in establishing accurate costs to be recorded for asset acquisitions. Once an asset has been acquired, under an approved method, it must be recorded at an appropriate value in order to properly control, manage, maintain and report on it. (See CAPP Topic No. 30205, *Acquisition Method*.)

Policy

General

It is the responsibility of each State agency and institution to ensure that all asset acquisitions are recorded at the asset's proper value. Documentation must be maintained in support of each asset value assigned.

Each fiscal year, the Comprehensive Annual Financial Report (CAFR) of the Commonwealth is prepared by the Department of Accounts and audited by the Auditor of Public Accounts. FAACS is the source for much of the capital asset information that is included in the CAFR. Accordingly, it is extremely important that the capital assets of the Commonwealth are properly valued and accurately recorded in FAACS.

Accounting information should be based on source documents. The voucher that represents payment to the vendor or a series of invoices supporting payment to a contractor are the primary forms of source documentation. This underlying source documentation "vouches for" or confirms what an asset actually costs and provides an auditable means of verifying historical cost, which is required for compliance with generally accepted accounting principles (GAAP). To provide an audit trail, copies of relevant source documents should be retained.

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Policy, Continued

In addition to the presentation of capital assets valued at historical cost, the CAFR includes accumulated depreciation and depreciation expense for these assets. It is also important to accurately record the acquisition date and ensure that a reasonably estimated useful life is assigned and a reasonably estimated salvage value (if any) is recorded. Useful life for an asset is determined by the choice of an appropriate nomenclature code. If an appropriate nomenclature code is not available in the table, a request should be made for DOA to establish a new code for the asset with a useful life that fits agency use patterns. Refer to CAPP Topic Nos. 30315, *Nomenclature Codes*; 30605, *Useful Life*; and 30610, *Depreciation Methods and Calculations*.

When assets have been disposed of, it is important to record the disposal in FAACS in a timely manner and with an accurate disposal date. Disposal removes the asset and accumulated depreciation balances from FAACS and provides an audit trail for disposals. Refer to CAPP Topic No. 30805, *Disposal Management*.

See also the “Procedures” section of this topic for further information on valuation methods.

Procedures

Acquisition Value

The acquisition value for each capital asset item is generally measured by the cash outlay required to obtain the asset. **Capital assets should be valued at actual cost or, if the cost is not readily determined, at estimated cost**. Acquisition cost includes the purchase price or construction cost, as well as costs incurred to place an asset in its intended location and in an operable condition. Such costs associated with an asset would include:

- freight and transportation charges
- installation costs
- site preparation expenditures
- professional fees (including title costs and surveying fees if appropriate)
- legal costs directly attributable to asset acquisition, and
- cost of necessary easements and right-of-ways.

The basic cost or value to be recorded for each type of acquired asset is shown below. Add any appropriate associated cost detailed above to the basic value.

- **Purchased assets** - recorded at invoice or contract price plus all other ancillary costs expenditures charged to the appropriate Commonwealth Accounting and Reporting System (CARS) object codes or local ledger account. *Software and other intangible assets should be recorded at cost or estimated cost as specified in* CAPP Topic No. 30325, *Software and Other Intangible Assets.*

  Ensure that the acquisition cost reported on the **CARS ACTR0463 Report, "Potential Fixed Assets**," does not represent a partial payment. Procedures should be developed to enable property management personnel to match the listing of potential capital assets with records of outstanding purchase orders for capital asset item. Partial payment information, *except costs associated with Construction-In-Progress as discussed on page 6*, should not be entered into the Fixed Asset Accounting and Control System (FAACS).

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Procedures, Continued

Recognize acquisition cost based on individual unit prices. Assets should not be grouped. For example, in acquiring equipment, if three personal computers (PC) are acquired at $2,000 each, this would not be a capital asset of $6,000 consisting of 3 PC's. Instead, it would be 3 separate acquisitions of $2,000. Each PC would be entered into FAACS as a separate controllable item.

- **Donated Assets** - Recorded at the fair market value if donated from an unrelated entity. Donations from related entities require the asset be recorded at the book value of the donating entity. The easiest way to accomplish this task is to record the asset at its original historical cost, acquisition date and nomenclature of the disbursing agency. VITA will assist in establishing the appropriate fair market value for data processing equipment. A "related entity" is defined as any entity reported in the CAFR. Note: The listing of related entities may change annually. Please review the listing at http://www.doa.virginia.gov/Financial_Reporting/Directives/Directives_Main.cfm to determine the appropriate valuation.

- **Transfers From Other State Agencies –** Should be treated as a transfer between related agencies, the acquiring agency should record the asset at its original historical cost, acquisition date and nomenclature of the disbursing agency.

- **Federal and State Surplus Property** - The acquisition value of surplus property is the current purchase price of the item, including any costs associated with making the asset operational. The surplus asset value is supplied by the Department of General Services, if needed. All Federal and State surplus property require internal appraisal by purchasing personnel before entry into FAACS.

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Procedures, Continued

- **Internal/External Construction** - All costs directly related to the construction and charged to the related CARS or local ledger account (i.e., the value of labor, materials and other costs associated with the construction and installation of the item and/or all contract related costs). Such charges should include all associated costs in the first paragraph of this subsection plus the following:

    - Insurance premiums
    - Interest expense incurred during construction
    - Engineering, architectural and other fees
    - Reasonably allocated overhead for heavy equipment used in construction, and
    - Adjustments resulting from final payments on construction contracts that were recorded as assets at the time they became operational.

  NOTE: Amounts that are determined to be capitalizable should be recorded in Construction-in-Progress **quarterly (amounts should be recorded in FAACS no later than the applicable quarter FAACS close date)** until the project is complete. Upon completion the total capitalizable cost should be transferred to the appropriate capital asset account. See CAPP Topic No. 30310, *Asset Categorization*.

- **Lease Purchase** - For assets acquired using installment purchases, record at the present value of all installment payments at the rate of interest implicit in the transaction. For assets acquired under lease financing arrangements, see CAPP Topic No. 31220, *LAS Reporting*
- **Trade-ins** - The cost of the new asset is the sum of the cash expended plus the cash equivalent of the value of old asset given in exchange. Value placed on the old asset may be book value, trade-in allowance or estimated fair value at the time of trade-in.
- **Forfeiture or Condemnation** - The lesser of 1) the asset's fair market value at the date of forfeiture or 2) the amount owed by the borrower together with costs incurred by the Commonwealth to obtain the forfeiture and to put the asset into service.
- Software and other intangible assets should be recorded at cost or estimated cost as specified in CAPP Topic No. 30325, *Software and Other Intangible Assets.*

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Procedures, Continued

Valuation Methods

The desired method of valuation is actual (historical) cost. Locate this data by retrieving original invoices, purchase orders, check copies, contracts, minutes, or other applicable documentation. However, if the agency is unable to establish actual cost after a reasonable expenditure of effort, rely upon estimated cost data. Some methods available for ascertaining estimated cost are:

- Engineering Studies
- Catalogue Prices
- Vendor Price Lists
- Deflation Indices
- Internal Appraisal via Purchasing Department
- External Appraisal
- Matching to Previously "Costed" Items

Software and other intangible assets should be recorded at cost or estimated cost as specified in CAPP Topic No. 30325, *Software and Other Intangible Assets.*

Give consideration to assets donated to the agency. The value should be based on the fair market value at the acquisition date. Sources of information for donated assets can be obtained from the donor, minutes, and appraisals.

Salvage Value

The salvage value of an asset is the estimated value it will have when it reaches the end of its useful life. Some assets are not likely to have a salvage value at the end of their useful life. This is particularly true for assets that are subject to obsolescence such as information technology related assets. For example, due to continuous changes in technology, computers are often worthless at the time of replacement and, therefore, have no salvage value.

On the other hand, some types of assets, vehicles, for example, are often still in working order when replaced and generally are sold or auctioned for some value.

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Procedures, Continued

Agencies should develop and periodically update a methodology for estimating salvage value that is based on the type of asset, its obsolescence and degree of usefulness at disposal and the nature of the disposal process. Assets that are typically sold or auctioned at the time of replacement should be assigned a reasonable salvage value. This estimate should be based on actual values received. ***Do not enter a salvage value that is equal to the total cost of the asset.***

The estimate of useful life chosen to indicate normal replacement policy should also be a factor in estimating salvage value.

Salvage value is a required field in FAACS. However, zero is an allowed value.

Avoid Overstating Asset Balances

When it becomes evident that obsolete material or damaged assets are recorded as capitalized assets in FAACS, reduce the value reported in FAACS to the asset's net realizable value in order to avoid overstating asset balances. This may entail changing the status of the asset from capitalized to controlled. Also consider, given the type of asset and/or the occurrence that led to the decline in value, whether additional action is necessary to ensure that asset values are not overstated. Such action would involve reviewing the status and condition of similar assets or assets impacted by a similar event. Materially overstated assets should be written down to net realizable value.

Additional valuation information and documentation is available upon request to the Financial Reporting Section.

Impairment of Capital Assets

Any capital asset impairment that represents a significant and unexpected decline in the **service utility** of the asset (as defined by Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*) should be reported to DOA as soon as possible for the appropriate treatment in FAACS. The FAACS system does not have specific functionality for addressing the impairment of an asset. Therefore, adjustments to asset balances for impairments require the use of Form 04 summary entries in FAACS. Routine costs incurred to maintain the asset in an operating condition are expensed and not included in the Fixed Asset Accounting and Control System (FAACS).

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Procedures, Continued

GASBS No. 42 provides three methods for calculating the asset impairment amount. A detailed description of each method is available in GASBS No. 42. The method used depends on the reason behind the impairment. Additional information regarding impairments is also available in the *Authoritative Literature / Guidance for Preparation of GAAP Basis Fund Financial Statement Templates* document located on the DOA website at www.doa.virginia.gov. Click on Financial Statement Directives to access this informational document. Any agency/institution that believes it may have an asset impairment should notify DOA as soon as possible for the appropriate treatment of the impairment.

Pollution Remediation

Governmental Accounting Standards Board Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, requires pollution remediation activities to be capitalized when goods are received in certain circumstances when obligating events occur. Under certain conditions, pollution remediation related expenditures should be capitalized when incurred. Obligating events are defined as the following:

1. The government is compelled to take pollution remediation action because of an imminent endangerment to health, welfare or the environment.
2. The government violates a pollution prevention–related permit or license.
3. The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party for remediation, or as a government responsible for sharing costs.
4. The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
5. The government commences or legally obligates itself to commence pollution remediation.

Any agency having an obligating event related to pollution remediation should contact the Department of Accounts for guidance on capitalizing assets associated with the pollution remediation.

Internal Control

General

Each agency and institution should implement internal control procedures to ensure that:

- All assets are recorded at their proper value.
- The method of valuation is properly documented.
- All assets are periodically reviewed to avoid material overstatement.

Records Retention

General

Fiscal records related to managing capital assets should be retained for a period of 2 years plus current fiscal year, or until audited, whichever is greater. However, for pending, ongoing, or unresolved litigation, audits or claims, retain documentation until completion, resolution, or negotiation of settlements.

Destruction of records must be in accordance with policies and procedures of the Records Management Section, The Library of Virginia.

DOA Contact

Contact

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Subject Cross References

References

CAPP Topic No. 30205, *Acquisition Method*

CAPP Topic No. 30310, *Asset Categorization*

CAPP Topic No. 30315, *Nomenclature Codes*

CAPP Topic No. 30325, *Software and Other Intangible Assets*

CAPP Topic No. 30605, *Useful Life*

CAPP Topic No. 30610, *Depreciation Methods and Calculation*

CAPP Topic No. 30805, *Disposal Management*

CAPP Topic No. 31220, *LAS Reporting*